

**Date:** April 19, 2011  
**To:** Thomas J. Bonfield, City Manager  
**Through:** Keith Chadwell, Deputy City Manager  
**From:** Mike Barros, Director, Department of Community Development  
**Subject:** HOME Agreements between the City of Durham and Metropolitan Housing and CDC, Inc.

### **Executive Summary**

On February 2, 2009, City Council approved the award of \$450,000.00 in HOME funding to Metropolitan Housing and CDC, Inc (MHCDC) to assist with the construction of ten homeownership units within the Franklin Village development. The HOME CHDO grant was to be used for development cost write-downs on a per model basis so the units would be consistent with the pricing of those being marketed at Eastway Village. The funding would assist the Durham Housing Authority (DHA) in providing homeownership opportunities as part of the HOPE VI redevelopment.

Due to a delay in the approval of DHA's revised HOPE VI revitalization plan, which was approved in July of 2010, MHCDC no longer has access to their original line of credit in the amount of \$600,000.00. MHCDC is now unable to obtain complete construction financing and has requested to be allowed to use the CHDO funds to assist with construction financing of nine units at Franklin Village. MHCDC was able to obtain an additional line of credit from First South Bank in the amount of \$600,000.00 but the new line of credit comes with a cap of \$60,000.00 per unit.

MHCDC is a non-profit, state certified CHDO and faith based organization located in Washington, NC whose mission is to "improve the quality of life for low-income persons through systematic and sustainable community development efforts." Over the past 12 years, MHDCDC has developed more than 900 units of safe, sanitary, affordable single and multi-family housing as well as needs-appropriate housing for seniors, survivors of domestic violence, HIV/AIDS patients and their families, and people with handicaps. While MHDCDC has a primary focus in eastern North Carolina, it has also completed projects in Virginia and South Carolina.

### **Recommendation**

The Department of Community Development recommends that City Council authorize the expenditure of up to \$450,000.00 in HOME CHDO funds to support the development of nine affordable housing units at Franklin Village and authorize the City Manager to execute a HOME Investment Partnership Agreement and CHDO Grant Agreement with Metropolitan Housing and CDC, Inc. in the amount of \$450,000.00 to support the construction of nine units at the Franklin Village development.

## **Background**

The Franklin Village development is a homeownership and rental community that is located on the former Few Gardens public housing site located at the corner of Holman and Taylor Streets, in Northeast Central Durham. The HOPE VI planning effort identified the area between Angier Avenue and Taylor Street and between Holman and Goley Streets, as the core of the revitalization area. This development sits directly across the street from the Eastway Village initiative which was developed by the City.

The Franklin Village site consists of 83 rental units with the potential to construct up to 40 homeownership units at the site. Substantial infrastructure improvements have also been completed on the site to include the re-alignment of Goley Street between Angier Avenue and Main Street which connects with Eastway Avenue, integrating the new Eastway Village community into the larger neighborhood. To build upon the homeownership momentum created by Eastway Village, the units that will be constructed at Franklin Village will be of the same design as the units constructed at Eastway Village, including the upgraded energy efficiency design through the North Carolina Housing Finance Agency's SystemVision program and the Green Building certification through the Durham, Orange, Chatham, County Homebuilders Association. As with Eastway Village, a homeowners association will be established for the new community.

MHCDC, acting as the developer, will team with Blue Ridge Enterprises, Inc. to construct the five different floor plans which will make up the nine units at Franklin Square. Blue Ridge Enterprises, Inc. was the general contractor for the 83 rental units at Franklin Village and also was the general contractor for Phases I and III at Eastway Village. The CHDO funds will assist MHCDC with construction, architectural and engineering costs for the first nine homeownership units on the Franklin Village site.

## **Issues/Analysis**

Once completed, the HOME assisted units in this development will be offered exclusively to households having incomes at or below 80% of the area median income. Due to a current soft real estate market, several incentives will be offered to first-time homebuyers. Staff will assist MHCDC in preparing an application to the North Carolina Housing Finance Agency requesting participation in the New Homes Loan Pool Program. If accepted in their program, an additional \$25,000.00 for down payment assistance can be made available for qualified applicants. These dollars are deferred for a 30 year period or upon the sale of the home. Included in the CHDO grant is down payment assistance in the amount of \$1500.00 per unit to assist potential homebuyers with their closing costs.

## **Alternatives**

The City Council could elect to not approve the HOME Agreements for the use of these funds. There are no other CHDO's active in Durham which are targeting the development of homeownership units in Northeast Central Durham. Additionally, given current market conditions in and around the HOPE VI project area, it is not feasible for profit-motivated developers to construct units comparable to those in Eastway Village because development costs exceed appraised values.

## **Financial Impact**

This opportunity to expand homeownership in the HOPE VI area and in Northeast Central Durham beyond Eastway Village is the result of MHCDC's ability to secure its own construction financing and its CHDO status. The Durham HOME Consortium is required to reserve and

expend not less than 15% of its HOME entitlement for CHDO activities. First South Bank will provide construction financing to MHCDC in the amount of \$600,000.00 based on a per lot amount up to \$60,000.00. The CHDO grant will provide the remaining funds to complete the cost to construct the individual unit. Along with the per lot subsidy provided by the CHDO grant, this will allow for the construction of five unit types or a total of nine units at the Franklin Village site. Once the initial four units are complete and upon the sale of a unit(s), the proceeds from the sale along with the per lot subsidy provided by the City will be used to construct an additional unit until the nine units are completed. Due to the cost to construct exceeding the projected sales price a share of the CHDO grant will remain with each individual unit as a construction cost write down. At no time will there be more than four units for sale. The attached table includes the cost to construct, the projected sales price and the estimated subsidy that will remain for each individual unit. This table may also be modified by the City Manager to deal with cost increases and contingencies, so long as those modifications do not exceed ten percent (10) of the line item total from which the funds are being removed or to which the funds are being added.

<b>Estimated Cost on a Per Unit Basis</b>				
<b>Unit Type</b>	<b>A</b>	<b>B and C</b>	<b>D</b>	<b>E</b>
<b>Square Footage</b>	1456	1376	1344	1200
<b>Construction Costs</b>	135,387	127,948	124,973	112,234
<b>Land Purchase</b>	7,500	7,500	7,500	7,500
<b>Developer's Fee 8%</b>	10,831	10,235	9,998	8,979
<b>Architect's Fee</b>	1,250	1,250	1,250	1,250
<b>Engineer's Fee</b>	1,000	1,000	1,000	1,000
<b>Attorney's Fee</b>	500	500	500	500
<b>Impact Fees</b>	3,500	3,500	3,500	3,500
<b>Loan Origination Fee</b>	1,350	1,270	1,250	1,120
<b>Real Estate Broker Fee</b>	6,545	6,395	6,050	5,500
<b>Interest on Construction Loan</b>	4,722	4,400	4,350	3,918
<b>Total Costs</b>	172,585	163,998	160,371	145,501
<b>Projected Sales Price</b>	130,900	127,900	122,900	109,900
<b>City Subsidy as Grant</b>	41,685	36,098	37,471	35,601

For example, if an "A" unit was constructed, the CHDO would provide \$60,000.00 in construction financing and the HOME CHDO grant would provide \$112,585.00 to equal the total costs to construct. Upon sale of the unit, the difference between the cost to construct and the sales price would remain in the unit with the remaining HOME CHDO grant amount being made available for future construction financing and construction costs write down.

As the developer of the nine units, MHCDC will receive a developer's fee of 8% of the cost to construct each individual unit. They will receive 50% of the developer's fee during the construction process and the remaining 50% when the real estate closing, transferring ownership to the owner-occupant, occurs. MHCDC will be responsible for the marketing and the sale of the units and will team with a local real estate firm to prepare its marketing materials. The Durham Housing Authority will also provide assistance by marketing the units to individuals who have graduated from their homeownership program.

MHCDC will construct the initial four units at Franklin Square for an estimated total cost of \$646,482.00. The unit types will consist of an A, B, C, and E unit. Floor plans are attached for the five unit types A-E. The CHDO grant will provide the remaining funds to complete the

construction of the units on the four lots in the amount of \$406,482.00. The construction budget for the nine homes is based on the completed units constructed at Eastway Village. Upon the sale of a unit, MHCDC can construct an additional unit and at no time will there be more than four completed units for sale. The schedule of construction and the unit types may be modified to address pre-sales or market preference of units.

Once the nine units are complete, the total subsidy provided by the City will be up to an amount of \$450,000.00. Included in the CHDO is the \$1,500.00 per unit for down payment assistance for the potential buyers. The remaining funds in the contingency account will be used to fund unforeseen costs during the construction process which meet the City's criteria and are approved by the City as specified in the CHDO agreement, and limited by the total amount appropriated by City Council.

The Durham Housing Authority will sell each individual lot to MHCDC for \$7,500.00 and will delay payment for the parcel until the transfer to the owner-occupant occurs. Based on the tax value of the lots at Eastway Village, this is a reduction of approximately \$12,500.00 from the assessed tax value. The Durham Housing Authority has also pledged to make available an additional \$5,000.00 in subordinate financing for the buyers at Franklin Village. The units constructed at Franklin Village shall remain affordable for fifteen years and the affordability period will be enforced through deed restrictions.

The attached 2010 median income chart shows incomes levels and family sizes for individuals at 80% or below of the area median income, as specified by HUD and as may be revised from time to time.

2010 MEDIAN INCOME CHART				
MEDIAN FAMILY INCOME CHART-CITY/COUNTY DURHAM				
Family Size	30%	50%	60%	80%
1	14,250	23,750	28,500	38,000
2	16,300	27,150	32,580	43,400
3	18,350	30,550	36,660	48,850
4	20,350	33,900	40,680	54,250
5	22,000	36,650	43,980	58,600
6	23,650	39,350	47,220	62,950
7	25,250	42,050	50,460	67,300
8	26,900	44,750	53,700	71,650